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## CASH AND THE FUTURE OF EURO BANKNOTES AT THE EUROPEAN COURT OF JUSTICE - AN UPDATE

MARTINA HORAKOVA | MH KNOWLOGY



In late September, Giovanni Pitruzzella, Advocate General at the European Court of Justice (ECJ), opined that German national law's definition of legal tender, which determines euro banknotes as the sole unrestricted *legal means of payment*, infringed on the exclusive competence of the European Union and therefore cannot be applied.

The opinion relates to a legal challenge against the Hessischer Rundfunk, a German public broadcaster. The Hessischer Rundfunk was accused of not accepting payments for an obligatory fee in euro cash, heard in the Grand Chamber in mid-June.

The case was originally brought forward to the Bundesverwaltungsgericht (BVG), Germany's administrative court.

The plaintiffs argued that the German public broadcaster's refusal of cash to settle obligatory payment was a violation of the status of euro banknotes and coins as legal tender. The BVG considered the prohibition of payment in cash of the radio and television licence fee contrary to German law on legal tender. This German legal act explicitly defines euro banknotes as "the sole unrestricted *legal means of payment*". However, this differs from Article 128, Paragraph 1 of the Treaty on the Functioning of the European Union (TFEU), which only states that: "The banknotes issued by the European Central Bank and the national central banks shall be the only such notes to have the status of legal tender within the Union."

The BVG therefore referred for a judgment on this discrepancy to the ECJ,

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## IN SEP 2020, THE EUROPEAN COURT OF JUSTICE ISSUED AN OPINION WITH IMPLICATIONS FOR THE FUTURE OF CASH:

- German national law's definition of euro banknotes as the sole unrestricted legal means of payment cannot be applied
- European Union law does not provide for an absolute right to payment in cash
- The only direct link between the value of legal tender attributed to cash and the exercise of fundamental rights may exist in social inclusion cases
- EU law allows for a potential amendment assigning the status of legal tender to CBDC

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asking three questions before deciding on the final ruling:

- 1) Is the provision of the Bundesbank Act compatible with the European Union's (EU) exclusive competence for monetary policy?
- 2) Whether EU law itself actually contains a prohibition precluding public authorities of a Member State from refusing the fulfilment, by means of euro banknotes, of a statutorily imposed payment obligation, which would mean that the rules of Hessischer Rundfunk are incompatible with EU law.
- 3) If, as a consequence of the legal tender status of euro banknotes, Member States' public authorities have to accept euro banknotes as a discharge of mandatory payment obligations, can a Eurozone Member State nevertheless apply national law as long as the EU has not made use of its transferred competence?

The role of the Advocate General is purely an advisory one. The judges request an opinion if they deem it necessary before deliberating and giving the actual verdict. That said, these opinions are of significance, since the jury tends to follow the opinions in the majority of cases. Advocate generals choose their own style and format when issuing opinions. This allows them to go into a lot of detail and the opinions tend to be elaborate. Furthermore, although the opinion is not a ruling from the court itself, it is now a document in the public domain that can be referred to in discussions by all stakeholders involved in the future of cash.

According to the advocate general, the case raised "new questions with constitutional implications, concerning the extent of the European Union's exclusive competence in the area of monetary policy and the effects of the legal tender of euro banknotes provided for in EU law. It also raises the issue of whether Member States whose currency is the euro may adopt national measures restricting the use of cash."

Pitruzzella acknowledges the "case raises new questions which are of considerable practical importance, both now and in the future, for the euro as the single currency. The Court is asked to interpret concepts of monetary law which it has not previously had an opportunity to rule on, and, more specifically, the concept of legal tender. All this in a complex environment in which the success of scriptural and electronic money and technological progress, with potentially disruptive effects on the use of money, is accompanied by the existence of a significant number of vulnerable people who still do not have access to basic financial services."

Pitruzzella's key findings are:

1. German national law's definition of legal tender status of euro banknotes as the sole unrestricted legal means of payment infringes on the exclusive competence of the European Union and therefore cannot be applied
2. European Union law does not provide for an absolute right to payment in cash and its acceptance can be limited due to contractual freedom or public reasons
3. The only direct link between the value of legal tender attributed to cash and the exercise of fundamental rights may exist in social inclusion cases
4. EU law allows for an amendment of the status of legal tender by assigning status to non-physical forms of currency, for

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**Germany-EU conflict: The EU's exclusive competence prevents Germany from applying its definition of euro banknotes as the sole legal unrestricted means of payment.**

instance a central bank digital currency (CBDC)

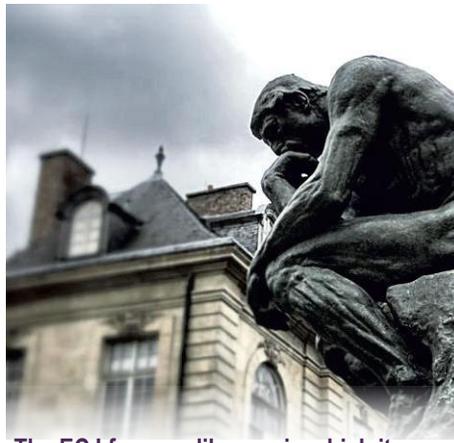
### 1. German national law's definition of euro banknotes as the sole unrestricted legal means of payment cannot be applied

Pitruzzella concludes that the authorisation to issue euro cash constitutes a part of the EU's, and hence the European Central Bank's (ECB), exclusive competence in the area of monetary policy.

Furthermore, in Pitruzzella's view, the provision of the Bundesbank Act (a national legal act), singling out euro banknotes as the only legal tender *means of payment*, is not compatible with EU's exclusive competence for monetary policy and cannot be applied in this case or at all. By defining banknotes as the sole unrestricted means of payment, this adopted legislation constitutes a *set of rules on legal tender*.

In other words, German legislature has, according to Pitruzzella, overstepped its competencies by setting a national legislation that "is not simply an exact copy of the provisions of EU law", but "aimed at supplementing the concept of legal tender in EU law" to ensure the unrestricted nature of euro *banknotes*. He also finds that the clear intention of the German lawmakers to supplement the EU law in order to provide legal clarity is well documented in work files of the Bundestag.

Furthermore, Pitruzzella believes, the Bundesbank Act cannot be applied even in the case of EU's lack of legislative action on the part of the latter. The 'lacking legislative action' on the part of EU legislature *being the absence of a precise and uniform definition of the concept of legal tender*.



**The ECJ faces a dilemma in which it could either leave Member States open to legal challenges or run the risk of undermining the euro as a whole.**

Hence, according to Pitruzzella, no Member State has the right to determine the scope of the concept of legal tender. Should the ECJ agree, the Bundesbank Act could be devoid of any legal effect. This could potentially open the door to legal challenges against other Member States whose respective national laws may be determining the scope of legal tender. Equally, should the ECJ disagree with the opinion, each Member State could legislate their own set of rules guiding the status of legal tender and risk undermining the euro as a whole.

Pitruzzella himself highlights that EU law currently does "not provide a precise definition of the concept of legal tender [and] it must be given an independent and uniform interpretation throughout the Union." He encourages work on that matter, by saying: "although the EU legislature has not provided a precise definition of the concept of legal tender, it remains free to do so at any time."



**According to Pitruzzella, under the current interpretation of EU law, a creditor is obligated to accept cash payments — however this obligation is not absolute.**

It is about time there is greater legal certainty in the euro area with regard to a common interpretation and definition of legal tender, what it means and how it must be protected.

### 2. European Union law does not provide for an absolute right to payment in cash

What are the *effects* of the status as legal tender of euro banknotes provided for in EU law? The advocate general's view is, by way of interpretation given the lack of precise definition, that as EU law currently stands, the concept of legal tender with regard to banknotes and coins must be understood as entailing an obligation *in principle* for the creditor of a payment obligation to accept banknotes and coins. However, this obligation, he finds, is not to be seen as absolute and only holds unless *otherwise agreed independently by contractual parties*, or unless otherwise provided *by regulations* restricting their use as a means of payment for *public reasons*<sup>a</sup>.

Pitruzzella determinates the above scope of the concept of legal tender based on guidance from *Commission Recommendation 2010 / 191 / EU* (Recommendation) from March 2010 on the scope and effects of legal tender of euro banknotes and coins and the *Recital 19 of Council Regulation No 974/98* (Recital) on the introduction of the euro, mentioned above.

He highlights that the Recommendation is based on the main conclusions in discussions captured within the 2010 Report of the Euro Legal Tender Expert Group (ELTEG), "drawn up by the working group of representatives of the Member States of the euro area" and "set up under the aegis of the European Commission and the ECB". He explains that the Recommendation provides "valuable guidance" given that in

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# “ IF ALL SHOPS IN THE AREA STOP ACCEPTING CASH, IS IT A CASE OF CONTRACTUAL FREEDOM OR A LOCAL MONOPOLY OF NON-CASH PAYMENTS LIMITING CUSTOMER CHOICE? ”



Some retailers have refused to accept cash due to fears of virus transmission through currency — bringing the issue of contractual freedom into focus..

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the past the ECJ “recognised that where a document [...] has been drawn up by a group of national experts and the Commission’s services, it may provide useful information for the interpretation of the relevant provisions of EU law.” It would be interesting to know to what extent ELTEG members were aware in 2010 of the significance their discussions would take on.

## Limitations due to contractual freedom

The general acceptance that cash settlement can be waived in accordance with the contractual freedom of the parties doesn’t bode well for the future of cash. The Covid-19 pandemic has brought the question of contractual freedom under the spotlight, with retailers refusing cash on the grounds of unconfirmed fears that currency transmits the virus. However, it raises the question of where contractual freedom between the parties enters into force in a person-to-business transaction. When a customer enters a shop with a “cards-only” sign on the door, does he enter a contract? If all shops in the area stop accepting cash, is it a case of contractual freedom or a local monopoly of non-cash payments limiting customer choice?

The ELTEG report, utilised in other instances by Pitruzzella, highlights the debate and disagreement on this issue: “It was not possible to reach an agreement on the issue because of the two different schools of thought described above: according to one school, contractual freedom can limit the public law provisions of legal tender, whereas according to the other one, contractual freedom cannot prevail over the public law principle of legal tender.” What might be needed is a universal ban on cashless shops, similar to what was legislated in New York and San Francisco.

## Limitations for public reasons

Pitruzzella believes that, as recognised in Recital 19, in exercising their powers, Member States may adopt measures that impose limitations on payments in euro

banknotes. Such limitations cannot lead in law, or in fact, to the complete abolition of euro banknotes. Moreover, they must be established for public reasons<sup>b</sup>. Moreover, Pitruzzella finds that for Member States to take measures restricting<sup>c</sup> the use of cash ‘not only’ for tax evasion and crime fighting reasons, but also notably for “the organisation and functioning of public and tax administrations” reasons is compatible with the EU law concept of legal tender.

Pitruzzella also notes that the “oversight [lack of precise definition of legal tender] is no accident, given the sensitivity of the issue and the difference in the approach taken by the various Member States concerned.” Namely, varied legal and consumer traditions as highlighted, for Pitruzzella, in discussions captured within the 2010 Report of the ELTEG, assembly of national central banks and ministries of finance. In other words, Pitruzzella believes that oversight is there on purpose to give Member States some room for manoeuvre. “Member States [who] may, for public reasons, adopt measures [...] limiting, in specific conditions and within certain limits, the use of cash.”

Pitruzzella defends his decision to take into account the Recital by saying although it “does not in itself constitute a legal rule and thus has no binding legal force of its own [...] [it] provides qualified guidance on interpretation.” It follows from that Recital, according to Pitruzzella, that the EU legislature has recognised that there is some room for manoeuvre in pursuit of the public interest, *not necessarily limited to public policy*, to justify a waiver of the (non-absolute) mandatory acceptance by creditors.

Pitruzzella’s decision to take Recital as guidance can be debated. The applicants argued before the German court that “even in the preparatory work for Regulation No 974/98, that the Recital should only be transitional in scope”. Transitional, as it was only intended deal with the transitional period

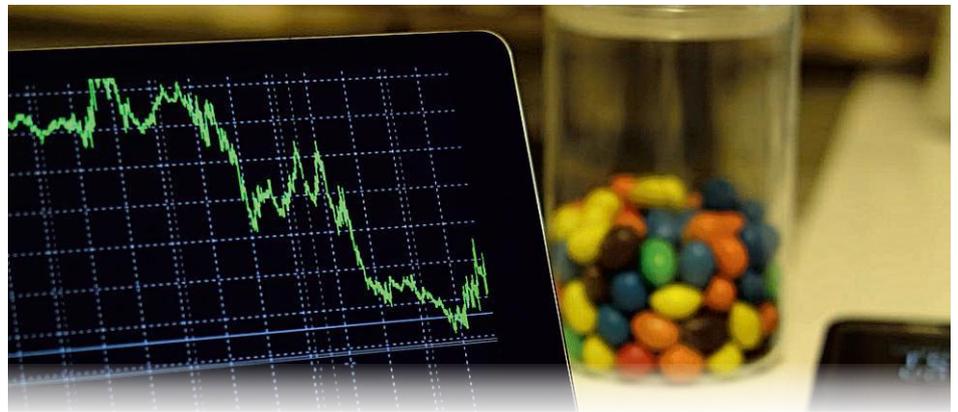
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before the introduction of the euro in its paper form. Also, Helmut Siekmann, Professor of Money, Currency and Central Bank Law at Goethe University, in his working paper *Restricting the Use of Cash in the European Monetary Union* finds that “arguments from Recital 19 [of Regulation No 974/98] have to be dismissed. They lack any normative significance” and for justifying imposing limitations on cash. Interestingly Pitruzzella himself refers to Siekmann’s work in his opinion, but draws a different conclusion.

### 3. The only direct link between cash and fundamental rights exists in social inclusion cases

“[Cash] use is *not generally necessary* for the enjoyment of those *fundamental rights* [...] However, a direct link between cash and the exercise of fundamental rights does exist in cases where there is a social inclusion element of the use of cash.” Pitruzzella, however, points out that “the applicants in the main proceedings do not appear to fall into that category.”

Pitruzzella also plays down the argument that cash is the only financial instrument free of insolvency risk, by arguing that, in his view, financial regulation and supervision is sufficiently robust. “It is true that physical money in the form of cash [...] is currently the only form of central bank money [...] and so is not exposed to the risk of bankruptcy of the financial institution managing the account. Nevertheless, *this risk* – which in practice, owing to the strict regulations that govern financial institutions, *can in fact be considered marginal* – does not restrict the use of other forms of money or other means of payment in order to exercise those fundamental rights, as is shown by the widespread and ever-increasing use of non-cash forms of money in activities where fundamental



**Pitruzzella acknowledged cash as the only financial instrument free of the insolvency risks faced by other forms of money. However, he considers this risk a marginal one due to the strict regulations imposed on financial institutions.**

rights are exercised.”

Siekmann, in his 2018 paper *Legal Tender in the Euro Area*, has an opposing view: “Finally it is often forgotten that the use of financial instruments other than legal tender implies an additional risk of insolvency. The intermediary that issues it may become insolvent but not so a central bank. Deposit guarantee schemes in the EU are legally and economically insufficient and in addition a bail-in instrument, which can pose a substantial risk for depositors, has been installed by the EU.”

Pitruzzella also discharges the role of cash in protecting privacy as in the case present the radio and television public authority knows the plaintiff’s personal details. Yet cash’s role as the only payment means protecting privacy could be viewed as protecting public interest. As Siekmann notes: “The population has a right to be left alone by the government



**Siekmann proposes that the population has a right to be left alone by the government unless adequate and convincing grounds for onerous actions can be shown.**

unless adequate and convincing grounds for onerous actions can be shown.”

### 4. Legal tender: CBDC and electronic payments

At the hearing in June, one of the judges asked if the term ‘legal tender’, as defined by the Treaty, would have an impact on the ‘development’ of the ECB’s central bank digital currency (CBDC). The decision to raise the topic of CBDCs was rather odd and out of context given the case present. Yet Pitruzzella decided to elaborate extensively on the possibility of application of the legal tender status not only for a potential ‘digital euro’, but electronic payments as well. Interestingly, the timing of the opinion coincides with the publication of the *Retail Payments Strategy for the EU*, which was released five days earlier, and the ECB’s *Report on a digital euro*, released three days later.

Pitruzzella argues that “it can in no way be inferred [...] that the constitutional legislature of the Union intended to exclude the possibility [...] to assign, alongside addition to euro banknotes and coins, the status of legal tender to other forms of currency that are not necessarily physical” such as a CBDC, but notably also other forms of scriptural money.

Pitruzzella also observes that the

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European Union and Commission seemed to be favouring, in his interpretation, electronic payments over cash: “although the Union has not explicitly assigned the status of legal tender to forms of currency other than cash, it has nevertheless comprehensively regulated payment services [...] and the issue of electronic money. [...] [The] Union itself has favoured the use of electronic means of payment.” With those payments’ regulations the Union “contributed, in view of the security and proliferation of these means of payment, to a reduction in the use of cash.” He also adds that “some believe that scriptural money should now be considered to have the status of legal tender” and supports this argument with work of Vincenzo De Stasio, ‘Verso un concetto europeo di moneta legale: valute virtuali, monete complementari e regole di adempimento’ (Towards a European concept of legal money: virtual currencies, complementary currencies and compliance rules), Banca borsa titoli di credito, 2018.

The potential argument that *new* regulation is simply worked on and introduced in order to regulate *new* instruments and *new* associated risks versus no need to regulate cash due its safety, is not considered by Pitruzzella. Despite the recent Wirecard scandal implying both that the risk to depositors isn’t just marginal and that supervisors are still catching up:

“When Wirecard collapsed and its UK division was forced to cease regulated activities for three days, millions of UK customers were unable to access their accounts. For many, the potential consequences were serious. Some relied on their app to cover direct debits and receive payments. The Financial Conduct Authority (FCA) responded with new measures to protect users of payment

services. But with the digital payments market expanding rapidly, regulators are under pressure to review their approach to the sector.”

Pitruzzella’s understanding that the EU is favouring electronic payments at the cost of cash also appears at odds with the *Retail Payments Strategy for the EU*, which stresses the importance of preserving access to cash: “In the framework of the ELTEG, the Commission will [...] closely follow the work on access to cash to be carried out under the auspices of the Euro Retail Payments Board. Taking this work into account, as well as the deliberations of the ELTEG, it may decide to take appropriate action to protect the acceptance and availability of euro cash at the end of 2021.” The ECB also maintains that “a digital euro would be introduced alongside cash; it would not replace it.”

#### The future of the case

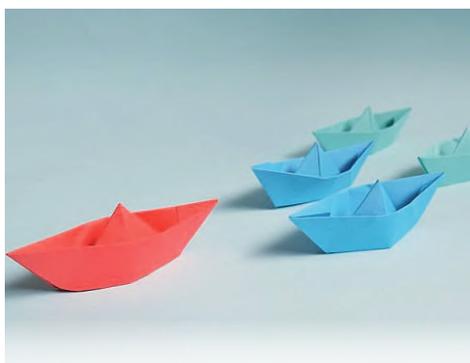
While he is clear in his opinion that the Bundesbank Act cannot be applied, Pitruzzella nevertheless firmly puts the ball back in the German court by saying “[the BVerfG] has all the necessary legal and factual elements to carry out the analysis, to determine, on the basis of any guidance provided by the Court [ECJ], whether [the Hessischer Rundfunk] provision imposing limitations on payments in notes is compatible with EU law and with the status of legal tender

of euro banknotes.”

He also volunteers how he would approach the case. In his view, the radio and TV station’s rule on prohibiting the acceptance of cash is purely of parafiscal nature and therefore does not encroach on EU exclusive competence, further it does “not manifestly lead to the abolition of euro banknotes and explicitly provides for other lawful means for the settlement.” Furthermore, it appears to Pitruzzella that the Rundfunk imposed restrictions also with the objectives of making “tax collection more efficient and combating crime” – and in this respect, Pitruzzella believes “that these objectives can all be described as public reasons, which can justify restrictions on the use of cash.” Pitruzzella did voice his concern in regard to social exclusion of those who don’t own a bank account. However, he noted that “it is not apparent from the case file that they have ever claimed that they were unable to pay the radio and television licence fee because they did not have access to basic financial services.”

Pitruzzella’s approach can however be questioned, as to this day there is still no sound empirical evidence that cash limitations help fight crime and terrorism. Indeed, criminals are sophisticated enough to use cryptocurrencies to move money. It is also questionable if tax efficiency can be achieved by imposing restrictions on the use of cash alone. Additionally, while one government institution refusing cash payments does not constitute a “complete abolition” of cash, if other institutions follow this lead it could erode the cash infrastructure, making it both unsustainable and unreliable, as well as undermining stability and trust in the euro.

The precise date of the court ruling has not been made public yet, but it can be expected before the end of the year.



**If other insititutions follow in refusing cash payments, it could have grave consequences for cash and the euro.**

## Author's Notes

- a. Pitruzzella uses 'public reasons' and 'public interest' interchangeably.
- b. Pitruzzella uses 'public reasons' and 'public interest' interchangeably.
- c. "This requires that the measures be appropriate for attaining the legitimate objectives pursued by the legislation at issue and not go beyond what is necessary in order to achieve those objectives."

## Further reading

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4. The Financial Times (30 September 2020): 'Wirecard's collapse exposes gap in payments regulation' <https://www.ft.com/content/0e84428b-bee6-45e6-bef1-b03f6f9be335>
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## VIEW FROM THE SIDELINES - SUPPLY OF SAFE, CLEAN CASH DURING A PANDEMIC

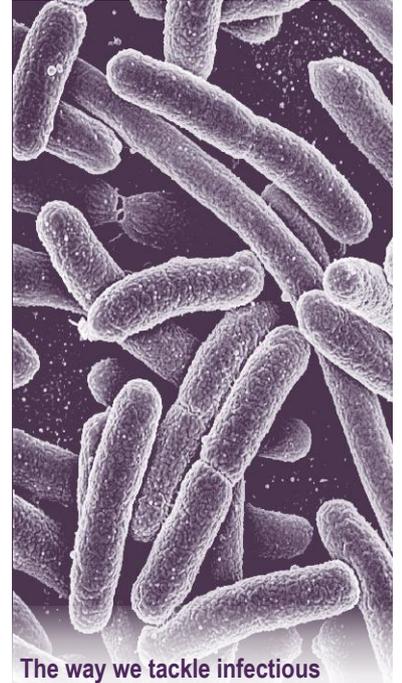
TAN JIT KENT

Throughout history, outbreaks of disease have been a test of mankind's ingenuity – challenging us to understand their propagation, progression, and ultimately their prevention or cure. Unfortunately, the study of new diseases can be long and laborious and more than a little prone to errors in judgement. Up to the late 19th century, for example, outbreaks of tuberculosis were understood by academics to be brought on by vampirism. Undead vampires were said to

be stealing the life force from their living relatives, thus causing the wasting symptoms of tuberculosis in victims. Thankfully, a century and half later our assumptions about communicable diseases have now been refined to focus on combating the transmission of germs – yet we may still struggle to find the best way of doing this.

When the outbreak of COVID-19 hit a global scale in March 2020, experts acted

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The way we tackle infectious diseases has evolved tremendously through the ages. At each stage, we have reevaluated our understanding — albeit not always with the greatest ease.

“  
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 ”



The poor and aged are most vulnerable to the worst outcomes of COVID-19. They also tend to be unbanked or otherwise poorly equipped to use non-cash payments.

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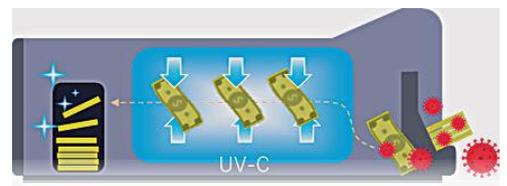
urgently to find the most likely means of transmission. Besides airborne droplets, contaminated objects and surfaces were suggested as possible agents that passed the virus from one host to another. It came as no surprise then that cash – the one thing that virtually every person carries and exchanges with others daily – was put under the spotlight. Could banknotes be spreading the COVID-19 virus with every sale and purchase?

It could certainly be a plausible prospect. In March 2020, the World Health Organisation (WHO) appeared to make a statement that the COVID-19 virus could cling to paper bills for multiple days – suggesting that customers may be better off using non-cash payment methods. However, they later clarified that they were not making a specific statement regarding cash and COVID-19. Rather, they were responding to a question on the subject, by recommending regular handwashing after handling money. As our understanding of the virus and its life cycle evolves though, expert consensus is likely to continue changing – and along with that come changes in consumer sentiment. Most research coming out now, in November 2020, points to the infection risk from handling cash as being low, however consumer confidence has been shaken. Therefore, any initiatives which increase consumer confidence in the safety of cash would likely benefit the industry as a whole. With this in mind, STT manufacturers have been announcing along the second part of 2020 innovative solutions to demolish arguments against the use of cash or present misconceptions or prejudices against cash, by creating even a healthier cash handling and cash transactions environment.

Currency disinfection as a concept is not exactly new. Many financial institutions have recognized the risk of COVID transmission and implemented a variety of measures to prevent the spread of infection at their counter facilities and branches, to ensure that services can be provided without

interruption. Unfortunately, the effectiveness of these measures is limited by the time it takes to disinfect the huge amount of banknotes they handle. For example, some financial institutions have exposed collected banknotes to ultraviolet light, distributing the banknotes again on the market after keeping them for a certain period time to ensure that any viruses are inactivated. It is however difficult to disinfect all banknotes even using this method, because the banknotes are exposed to ultraviolet light in bundles, and the light is unable to reach the banknotes in the interior of the bundle.

There are in the market today solutions that by exposing banknotes to strong ultraviolet (UV-C) at a wavelength of approximately 260 nm – at speeds of 1000 notes per minute, both sides of a set of banknotes can be exposed. The wavelength of ultraviolet is thought to produce the biggest antimicrobial effect, providing the system with strong overall disinfection effect.



Depiction of how the disinfection works where both sides of each banknote are exposed to strong ultraviolet (UV-C) light.

This development has been tested in collaboration with Aichi Medical University. Its efficacy was confirmed via a validation experiment conducted by Dr Takayuki Komatsu – an associate professor at the university – together with a teaching staff member at the Department of Microbiology and Immunology, who specializes in virology research. On the experiment, Dr Komatsu commented, “Our validation confirmed that more than 99% of parainfluenza virus (an enveloped virus whose structure is similar to that of COVID-19) applied on the banknotes were inactivated. Therefore, we believe that this development is an effective product which is expected to reduce the risk of virus

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transmission via circulating banknotes.”

In addition, this product’s disinfection unit can be used for a broad range of sorting operations because it can be used in combination with banknote sorters and integration units developed in-house. Connecting the unit to a bundling machine would make it possible

to automate a series of operations related to the banknote disinfection process, such as the bundling of sorted, disinfected banknotes in 100-bill bundles, marking each bundle as disinfected, etc.

As the pandemic continues to ravage vulnerable populations, this development appears to be a timely and helpful one. While vaccine prototype development

has shown promise and a final product may be available as early as the beginning of 2021, it is likely that those who are most vulnerable to the disease and who are most likely to use cash would also have the poorest access to the new vaccine. For these populations, access to a safer, cleaner cash would be most welcome.

### Further Reading

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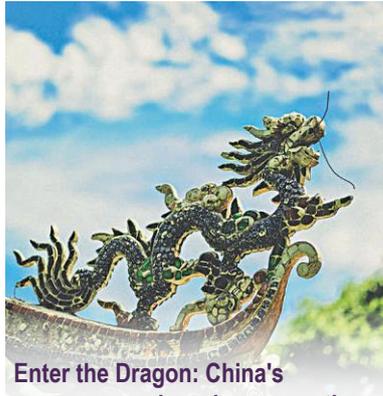
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Tom Meehan

# CHINA HAS SET THE STAGE FOR THE DIGITAL AGE OF RETAIL

TOM MEEHAN | CONTROLTEK



Enter the Dragon: China's consumer and producer growth has recovered well from the pandemic and is set to be the only growing major world economy in 2020.



Experts predict that for the first time in over a century, the United States will no longer be the largest retail market in the world. The United States and China were both deeply impacted by the COVID-19 pandemic, but the Chinese retail sector has been able to bounce back much faster, giving them a long-term advantage in growth.

Both consumer and producer growth in China has recovered from the pandemic, showing consistent growth and a 4.3 percent increase in retail sales in October from last year. This is a huge shift from the state of Chinese retailers earlier in March when half of them did not have enough cash to last the next sixth months after sales plummeted due to the pandemic. As China has become the only major economy in the world expected to grow in 2020, we can see that their success comes from their ability to capitalize on the latest retail trends. In recent years, retail has evolved to meet both industry and consumer demands for digitization. Let's take a closer look at how the Chinese retail market has adapted to the digital age of retail.

## Social Commerce

One of the biggest trends we should look out for is social commerce, where e-commerce meets social media to target young and engaged social media users. Social commerce sales are expected to make up 11.6 percent of all retail sales in China by the end of the year. Douyin, the video-sharing app similar to TikTok and also owned by ByteDance, encourages user

participation, so users create content rather than simply scrolling through a feed. This has created an opportunity for brands to monetize Douyin content by enabling users to click a video and follow a link to a third-party retailer to purchase a product.

Retailers are also investing in entertainment-driven content to connect brands with consumers. Think of this like QVC and the Home Shopping Network, but updated for the digital age: Online retailers integrate with social media and digital payments to produce live video streams where hosts sell products. Amazon has adopted a similar strategy in the American market with Amazon Live, where livestream hosts demonstrate different products, just in time for Black Friday last week.

The livestreaming model also targets a younger audience and relies on key opinion leaders (KOLs), the Chinese equivalent to "influencers," to demonstrate and review products in an authentic way. Not only do the livestreams have thorough product demonstrations, but they also have successful livestreamers, whose viewers trust their opinions, to promote the product to consumers. Because it is estimated that China's livestreaming market will reach \$16.3 billion by the end of 2020, they have the highest population of social buyers in the world.

## Cashless Transactions

Spurred by baseless irrational fears about

*Continued on next page*

“ BECAUSE IT IS ESTIMATED THAT CHINA'S LIVESTREAMING MARKET WILL REACH \$16.3 BILLION BY THE END OF 2020, THEY HAVE THE HIGHEST POPULATION OF SOCIAL BUYERS IN THE WORLD. ”

Continued from previous page

exchanging cash, cashless payment methods have become even more popular in China, despite many studies showing that cash is not a major transmitter of the virus that causes COVID-19. Regardless of how contactless payment services such as Alipay are already widespread throughout the country, many retailers have started only accepting cashless payments.

Much like the opening of Amazon Go stores in the United States in recent years, the Chinese supermarket chain Hema has also adopted a cashless self-checkout system. However, this posed a problem for consumers such as the elderly, overseas visitors, and people from rural areas, all of whom are either unfamiliar with or unable to access this technology. Eventually, the Chinese authorities had to intervene and require Hema to install cash registers.

Other retailers, such as the automated convenience store chain BingoBox with locations in Beijing and Shanghai, have taken the contactless shopping experience even further by **not staffing their stores with people at all**. Instead, customers scan QR codes to identify themselves and select their purchases, then pay with their mobile wallets, powered by WeChat, the multipurpose social media and mobile payments app. The shelves are equipped with sensors to detect when products have been removed, and each item is connected to the shopper's ID in the app to prevent theft.

Mobile payments are especially challenging for short-term visitors to China:



Despite China's rapid development, it still has a massive rural population with only 56% of its total population being internet users.

Most payment apps require a bank account in the country and a Chinese phone number. I have traveled to China 12 times in the past three years, and on many occasions, I have been unable to purchase food or essential items because I cannot access Chinese contactless payment methods.

As we have seen in many arguments against a cashless society, refusing to accept cash also excludes unbanked consumers who do not have accounts with traditional financial institutions and make all their transactions in cash. In China, where only 56 percent of its population used the internet in 2017, the rural population is much larger, and these people often do not have the technology required to “tap to pay” at the grocery store, which has become more popular during the pandemic.

In July of this year, the Chinese government started cracking down on retailers who refused to accept cash, due to widespread complaints about retailers discriminating against cash users. Even credit cards are sometimes not accepted by retailers and restaurants, as smartphones become the main method of payment in the country.

As the retail industry continues to adapt to the changing expectations of consumers, we can expect many retailers to embrace up-and-coming trends such as social commerce, livestreaming sales and contactless payment methods to set themselves ahead of the curve. Even as technology progresses, the authorities in China must continue to protect cash inclusion in the payments ecosystem.



Some retailers have used QR code and mobile wallet self-checkout systems to replace human staff completely.

“MOBILE PAYMENTS ARE ESPECIALLY CHALLENGING FOR SHORT-TERM VISITORS TO CHINA. MOST PAYMENT APPS REQUIRE A BANK ACCOUNT IN THE COUNTRY AND A CHINESE PHONE NUMBER.”

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# MEMBERS' NEWSBOARD - LATEST STORIES FROM ACMA MEMBERS

## SPINNAKER INTERNATIONAL JOINS FORCES WITH SPEARPOINT SPINNAKER

Leading technology company Spinnaker International have teamed-up with Spearpoint Security Group to bring the latest security innovations to South East Asia.

Spinnaker products change the way cash management companies and banks look at cash protection. Simultaneously, the team of experienced security consultants at Spearpoint are well placed to advise how the technology can improve profitability throughout South East Asia. Gone are the days of heavy armoured trucks and armed guards. Especially during times of reduced cash



usage. Technology to protect cash is the way forward.

The market disrupting philosophy of iBox is logical. If you transport large amounts of cash, you assume someone may try to steal it. iBox uses low-weight boxes containing cash degradation

systems. If stolen, the money inside is automatically degraded and made unattractive to the would-be criminal. To date, more than 45 countries use iBox to transport cash.

Nobody involved in the transport of the cash can open the containers, therefore there is less need to protect the cash with weapons. Unauthorised opening in any way results in the technological system activating and all the cash being stained irreversibly with a permanent dye.

To learn more, please view the full story on the ACMA website, [here](#).

## CASH USAGE, COVID 19, AND CASH PROTECTION OBERTHUR CASH PROTECTION

A surge in the demand for cash has been experienced during the pandemic, despite the global uptake of e-commerce, with numbers like 2 trillion USD and 25 billion Euros in circulation during October. Even with the dramatic rise of digital payments in China, cash remains the payment of choice across most of South East Asia. Vietnam reputedly has the highest cash usage as the penetration of debit, credit cards and bank accounts are very low. And although there was worry about banknotes transmitting the virus early on in 2020, recent research has shown that the COVID virus does not stay on banknotes as long as it does on other surfaces.

Recently, Coles the Australian supermarket chain closed 800 stores for a day due to technical issues related to

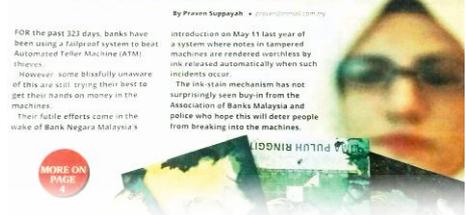
payment processing. This clearly illustrates the consequences of over dependence on digital payments.

Increasingly retailers are using smart safes which bring together traditional physical security with integrated software. The demand to protect cash has never been greater; global experience points to the use of IBNS – Intelligent Banknote Neutralization System which indelibly mark cash as stolen...

Oberthur Cash Protection (OCP), a worldwide leader in IBNS Cash Protection solutions, have examples of successful case studies such as with ATM protection in Malaysia.

To learn more, please view the full story on the ACMA website, [here](#).

## Worthless stolen ATM notes



ATM protection deployed in Malaysia.



An attacked ATM.

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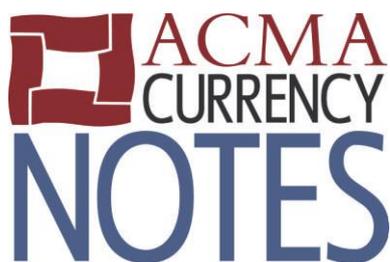
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## SHARE YOUR INSIGHTS

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To provide a platform for Cash Management Companies (CMCs) in Asia, Africa and Australia & Oceania to raise their professional reputation and standing in the Cash Handling and Cash Management Industry, and to act as a representative with the appropriate authorities on issues of common interest.

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